

**State of Washington  
Joint Legislative Audit and Review Committee (JLARC)**



**Performance and Outcome  
Measure Review:  
Vocational Rehabilitation  
Services to Injured Workers**

**Briefing Report**

**January 5, 2005**

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in alternative formats for persons with disabilities.***

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The Joint Legislative Audit and Review Committee (JLARC) carries out oversight, review, and evaluation of state-funded programs and activities on behalf of the Legislature and the citizens of Washington State. This joint, bipartisan committee consists of eight senators and eight representatives, equally divided between the two major political parties. Its statutory authority is established in RCW 44.28.

JLARC staff, under the direction of the Committee and the Legislative Auditor, conduct performance audits, program evaluations, sunset reviews, and other policy and fiscal studies. These studies assess the efficiency and effectiveness of agency operations, impacts and outcomes of state programs, and levels of compliance with legislative direction and intent. The Committee makes recommendations to improve state government performance and to correct problems it identifies. The Committee also follows up on these recommendations to determine how they have been implemented. JLARC has, in recent years, received national recognition for a number of its major studies.

**PERFORMANCE AND  
OUTCOME MEASURE  
REVIEW: VOCATIONAL  
REHABILITATION  
SERVICES TO INJURED  
WORKERS**

**BRIEFING REPORT**

JANUARY 5, 2005



STATE OF WASHINGTON  
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## OVERVIEW

In 2003, JLARC conducted a performance and outcome measure review of the system used by the Department of Labor and Industries (L&I) to provide vocational rehabilitation services to injured workers. A copy of the Department's update is included as Appendix 1. The results of the 2003 review were five findings and one recommendation to improve the methods used to refer injured workers to providers of vocational rehabilitation services:

### 2003 Review Findings:

1. L&I is not in compliance with the statutory mandate to make referrals based on performance criteria;
2. Key performance indicators measure efficiency, rather than quality and effectiveness;
3. Performance scoring methodology may discourage quality and effectiveness;
4. Conflicting statutory direction results in confusion about program purpose;
5. Single methodology inadequate to calculate performance of all referral types.

### 2003 Review Recommendation:

- L&I should consider additional methods of promoting accountability over the allocation of resources to vocational rehabilitation providers.

Following up on JLARC's 2003 *Performance and Outcome Measure Review: Vocational Rehabilitation Services to Injured Workers* of L&I's system to provide vocational rehabilitation services to injured workers, JLARC asked the Department to provide a status update on the implementation of the recommendation from that review. Our review of the Department's November 10, 2004, update suggests that substantial progress has been made in addressing these issues and that additional improvements are planned.

The following outlines the 2003 findings and the agency's response to each:



## L&I IS NOT IN COMPLIANCE WITH THE STATUTORY MANDATE TO MAKE REFERRALS BASED ON PERFORMANCE CRITERIA

An August 2004 communication from the program manager for claims administration to all claims managers stated that L&I has a statutory requirement to select vocational providers on the basis of timeliness and quality of services. Provider performance reports were identified as “the agency tools that best reflect each provider’s performance” and claims managers were instructed to use this information to select vocational rehabilitation providers. Provider performance reports include information such as performance scores, percentage of referrals with specific outcomes such as return-to-work, types of referrals, provider geographic location, etc.).

Previously, claims managers were able to see provider names ranked in order of performance score but did not see the actual score. This information has now been added to the screen used by claims managers to make provider referrals. In addition, Accountability Summary Reports now include information on average provider performance score and number of conditional referrals to allow Claims Administration managers to monitor how claims managers use performance information in making provider referrals.

## KEY PERFORMANCE INDICATORS MEASURE EFFICIENCY, RATHER THAN QUALITY AND EFFECTIVENESS; AND PERFORMANCE SCORING METHODOLOGY MAY DISCOURAGE QUALITY AND EFFECTIVENESS

Providers of vocational rehabilitation services receive performance scores intended to reflect the quality and effectiveness of the services they provide to injured workers. As noted above, L&I claims managers then use these performance scores as the basis for referring injured workers to vocational rehabilitation providers. To address concerns that the performance scoring methodology promotes efficiency and gives providers an incentive to close cases quickly rather than to achieve desired outcomes such as returning injured clients to work, the performance measure scoring methodology has been adjusted. The new methodology increases the weight given to several outcome measures that reflect quality and effectiveness. Note that the performance measure is constructed so that *lower* scores indicate *better* provider performance while *higher* scores indicate *worse* provider performance. The new scoring methodology adjusts provider’s scores as follows:

- *Return to work* outcome reduces the performance score by 67 percent (previously the reduction was 33 percent);

- *Able to work* outcome reduces the performance score by 50 percent (previously this outcome had no impact on the score);
- *Further services appropriate* determination reduces the performance score by 50 percent (previously this outcome had no impact on the score);
- *Further services not appropriate* determination reduces the performance score by 50 percent (previously this outcome had no impact on the score);

By placing a greater emphasis on outcomes, the scoring methodology will better measure provider quality and effectiveness. With the requirement that claims managers use performance scores in making referrals, vocational rehabilitation providers have more incentive to improve their scores by producing desirable outcomes.

An additional initiative to emphasize quality and effectiveness is the outcome-based pilot program scheduled for implementation in 2005. Under this pilot, the majority of a provider's payment is conditional on provision of an acceptable work product rather than an hourly billing rate.

## CONFLICTING STATUTORY DIRECTION RESULTS IN CONFUSION ABOUT PROGRAM PURPOSE

The November 10, 2004, letter from the Department to JLARC characterized the goals of vocational services as "employability and, within that standard, returning workers to work whenever possible." The increased weights given to specific outcomes in the performance scoring methodology are consistent with this statement.

## SINGLE METHODOLOGY INADEQUATE TO CALCULATE PERFORMANCE OF ALL REFERRAL TYPES

L&I has chosen not to pursue the development of different scoring methodologies for different types of referrals for two reasons. First, they believe that the statutory requirements under RCW 51.32.095(1) and (2) provide overall guidance for all types of vocational services, which is to assist injured workers in becoming employable and whenever possible returning to work. A single scoring methodology is consistent with the concept of a single overall goal for vocational services. Second, the Department is concerned about the cost, complexity, and confusion of creating, displaying, and using multiple provider performance scores.

However, the Department does acknowledge that different types of vocational services may have different outcomes. This is reflected in the changes to the performance measure methodology noted above. In addition, the Department is exploring the use of dispute resolution data (the extent to which workers dispute vocational findings such as "able to work" or "further services not appropriate") as a quality indicator for certain vocational services.

## RELATED CHANGES AND FUTURE IMPROVEMENTS

Based on consultant recommendations, the Department has also made the following changes in its vocational provider performance measurement system:

- Updated the time-loss payment conversion factor to reflect current payments - the conversion factor will now be updated annually;
- Using provider performance measures to identify providers whose work should be reviewed;
- Helping providers to understand and learn from their own performance data;
- Initiated a study of how to modify case complexity adjustments to performance measures – this study has been slowed due to a lack of computer programming resources.

## SUMMARY

L&I has taken a number of steps to address the JLARC recommendation of promoting accountability over the allocation of resources to vocational rehabilitation providers. These include greater management emphasis on and oversight of the statutory requirement to make referrals based on performance criteria and improvements in the performance scoring methodology to emphasize desirable outcomes.

# APPENDIX 1 – 2003 REPORT DIGEST

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**PERFORMANCE AND  
OUTCOME MEASURE REVIEW:  
VOCATIONAL  
REHABILITATION SERVICES TO  
INJURED WORKERS**

**REPORT 03-11**



OCTOBER 22, 2003

STATE OF WASHINGTON

JOINT LEGISLATIVE AUDIT AND REVIEW  
COMMITTEE

**STUDY TEAM**  
Larry Brubaker

**LEGISLATIVE AUDITOR**  
Tom Sykes

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## OVERVIEW

The Department of Labor and Industries (L&I) manages the state's workers' compensation system, which provides coverage for medical costs and lost wages for workers who are injured on the job. One of the services available to injured workers is vocational rehabilitation. Vocational rehabilitation services identify and resolve problems that may prevent injured workers from returning to work. L&I contracts out most of the vocational rehabilitation services it provides to private providers. Since 1985, L&I has been required by law to make referrals to vocational rehabilitation providers on the basis of quality and effectiveness. This study reviews how L&I measures the quality and effectiveness of its vocational rehabilitation providers, and how these performance measures are used to make referrals to providers.

## OVERALL FINDING

JLARC finds that L&I is not in compliance with the statutory requirement to make referrals to vocational rehabilitation providers on the basis of quality and effectiveness. The factors that L&I uses to measure provider performance are better measures of efficiency than quality and effectiveness, and the performance scoring methodology may actually create a disincentive for quality and effectiveness. Additionally, JLARC finds that different types of vocational rehabilitation referrals may have widely varying goals. These varying goals are not adequately recognized in the single formula L&I uses to measure performance. Also, the performance scores L&I calculates are not required to be used by L&I staff in making referrals to providers.





## APPENDIX 2 – AGENCY UPDATE

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- Department of Labor and Industries
- Office of Financial Management



STATE OF WASHINGTON  
DEPARTMENT OF LABOR AND INDUSTRIES  
*PO Box 44000 • Olympia, Washington 98504-4000*

RECEIVED  
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October 7, 2003

Mr. Thomas M. Sykes  
Joint Legislative Audit and Review Committee  
506 - 16th Avenue SE  
Olympia, WA 98501-2323

Dear Mr. Sykes:

The Department of Labor and Industries appreciates the opportunity to review your preliminary report on the Performance and Outcome Measure Review: Vocational Rehabilitation Services to Injured Workers. Our position on the recommendation is as follows:

Recommendation	Agency Position	Comments
<b>Recommendation 1:</b> L&I should consider additional methods of promoting accountability over the allocation of resources to vocational rehabilitation providers.	<b>Concur</b>	In concurring with the recommendations, the department believes it should have the flexibility to consider a wide range of options that address the different types of vocational rehabilitation referrals.

I have attached a more detailed response, which addresses the main findings contained in your preliminary report. We appreciate the opportunity to provide these comments and look forward to meeting with the committee on October 22.

If you have any questions, please contact Roy Plaeger-Brockway, Manager for Health Services Analysis, at 360-902-6699.

Sincerely,

Paul Trause  
Director

cc: Judy Schurke, Deputy Director  
Robert Malooly, Assistant Director for Insurance Services  
Roy Plaeger-Brockway, Manager for Health Services Analysis



## **Washington State Department of Labor & Industries**

### **Department Comments on JLARC Audit Report**

#### **Performance and Outcome Measure Review: Vocational Rehabilitation Services to Injured Workers**

##### **Background**

In July and August of 2003, the Joint Legislative Audit Review Committee (JLARC) conducted a performance measurement review of the Department of Labor and Industries' vocational performance measurement system. The review was conducted in conjunction with a follow-up study that JLARC performed on its 1998 audit of the department's workers' compensation programs. At the time of the 1998 audit, the department was in the process of implementing its performance measures for vocational rehabilitation providers.

##### **JLARC Recommendation**

The purpose of JLARC's recent review was to assess L&I's progress in implementing the statutory mandate of developing quality and effectiveness criteria and in making referrals to vocational providers based on those criteria. In its report, JLARC made the following recommendation:

**Recommendation 1: L&I should consider additional methods of promoting accountability over the allocation of resources to vocational rehabilitation providers.** This could range from a significant enhancement of the current performance-based referral system to include different measures of quality and effectiveness for different categories of referrals, to the development of an outcome-based payment system. L&I should seek statutory changes, if these are deemed necessary, to improve accountability over the allocation of vocational resources to providers.

##### **L&I Response to Audit Recommendation**

The Department of Labor and Industries concurs with this recommendation. L&I will be implementing changes to its performance rating system in November 2003 that provide additional incentives for providers to deliver services consistent with the agency's goals. L&I will also explore ways to measure referral outcomes by type of referral. The department will also develop an outcome based payment system on a pilot basis. Depending on the degree of success, L&I will expand the outcome based payment system beyond a pilot. The agency is also seeking statutory changes to make the system more effective.

## **Discussion of Main Findings**

### **Finding # 1: L&I is not in compliance with the statutory mandate to make referrals based on performance criteria.**

The department agrees there are opportunities to make better use of performance measures when making referrals to vocational counselors. L&I continuously emphasizes the importance of using the vocational performance ratings with its 250 claims managers. This is done through a variety of mechanisms, such as memos from management, training, and more recently coaching by L&I's vocational consultants. As part of formal claims training, L&I instructs staff on the method used to calculate the performance rating and trains them to make referrals to providers with the best results. The department's vocational consultants actively assist claim managers with vocational issues and explain how to use the performance rating system for making referrals to private sector counselors.

The department has instructed staff to make referrals to eligible, rather than conditional providers, unless there are compelling reasons to use a conditional provider. L&I's experience is that many claim managers have incorporated the performance measures into their referral decisions. The department plans to reinforce this training. The department has also made changes to its information system, which makes it difficult to bypass the performance ratings when claim managers make referrals. The department plans to develop an internal monitoring system to ensure referrals are being made to the appropriate providers. We remain committed to a high level of compliance in using the performance measures.

### **Finding # 2: Key performance indicators measure efficiency, rather than quality and effectiveness.**

Vocational counselor performance measurement is a new and developing management practice. The department implemented its first version of the performance measurement system in 1998 and had few prototypes to draw upon. Since that time, the agency has made numerous revisions to the system based upon provider and consultant feedback. Most recently, the department contracted with Thomas Wickizer, PhD, a research scientist at the University of Washington, who conducted an independent review of L&I's system. Concurrently, L&I assembled an internal team to evaluate possible ways to improve the measurement system. The agency's goal was to find ways to improve the balance between effectiveness and efficiency measures.

On the basis of the University of Washington study and the department team's evaluation, L&I is changing the measurement system to place greater weight on return to work outcomes, which are a measure of quality and effectiveness. The changes will be reflected in the department's November 2003 performance report. The changes will place substantially more weight on return to work, which we expect will increase the percentage of return to work outcomes. At the same time, the department believes that efficiency measures, such as the time to provide vocational services, are important to track in its performance rating system. Efficiency measures, such as duration of service, encourage counselors to provide prompt services that can help reduce the chances of long term disability.

**Finding # 3: Performance scoring methodology may discourage quality and effectiveness.**

L&I agrees that its measurement system should not discourage quality and effectiveness. This is why the department is changing its scoring method to place substantially more weight on measures of quality and effectiveness. This will discourage providers from closing referrals quickly to achieve better scores based on shortening the duration of services. Instead, the scoring method will provide greater incentives for counselors to work with injured workers to help them return to work. Under the new scoring formula, the benefit of achieving a return to work outcome will have the effect of reducing the weighting of the cost and duration of the counselor's referral by two-thirds. We are making this change in November 2003.

**Finding # 4: Conflicting statutory direction results in confusion about program purpose.**

The statutes governing workers' compensation refer to employability as the primary goal of the program; however, the laws governing vocational rehabilitation refer to return to work. The law states that the department's minimum obligation is to find injured workers employable at gainful employment. While our legal obligation is employability, as an agency, L&I strives to go beyond this by promoting return to work. In November 2003, the agency will double the weighting of return to work outcomes to encourage counselors to help injured workers return to employment.

The department has also undertaken numerous initiatives in the past year with the specific goals of increasing return to work outcomes. One such initiative is targeted at improving early intervention services to increase the number of workers who return to work with their employer of injury. Assistant Director Robert Malooly has provided L&I claim managers clear communication about the importance of selecting vocational counselors based on their return to work outcomes. Finally, the department has sought legislative changes to improve how vocational services are provided and will propose changes during the upcoming legislative session.

**Finding # 5: Single methodology inadequate to calculate performance of all referral types.**

The department uses a single score to calculate the key indicator used to measure vocational counselor performance. This score measures cost-effectiveness based on the following four factors: (a) length of time to provide services; (b) cost of services; (c) outcome of the services; and (d) complexity of the injured worker's case. Vocational providers receive additional credit for a return to work outcome, which improves their score considerably. L&I claim managers use the score to select vocational counselors based on their performance. Although a single score has limitations, it offers claim managers a simple measure for choosing a provider.

Conceptually, the idea of developing separate performance measures for each of the four referral types makes sense, since they have different outcomes. The department plans to explore this, but recognizes disaggregating performance measures will reduce the sample size for each counselor and will produce more information for claim managers to consider when choosing a counselor. As with any other changes to the measures, an important consideration must be to balance between the gains of more precise measurement versus greater administrative complexity for providers and claim managers.

